

Credit Cards, Charge Cards, Debit Cards, and Stored Value Cards – Accessible Version

People sometimes confuse credit cards with charge cards, debit cards, and stored value cards. It is important to remember that credit cards and charge cards will allow you to build a credit history—debit cards and stored value cards will not.

Credit Cards

Credit cards allow you to obtain goods and services now and pay for them over time. With credit cards, you have a revolving line of credit. That means you can make purchases up to an approved dollar limit, such as \$3,000.00, and as you pay it back you can re-borrow it.

You must pay at least part of your bill every month. This is called a minimum payment. Remember, if you only make the minimum payment, it may take a very long time to pay off the balance on your credit card. The minimum payment is often a percentage of your balance. For example, a minimum payment on a \$600.00 balance might be \$24.00 or 4 percent of the balance.

Financial Tip: It is a good idea to review your credit report before you apply for a credit card. Credit reports and credit scores will be explained later in this lesson.

- **Secured and Unsecured Credit Cards**

Credit cards can be either secured or unsecured. Most credit cards are unsecured. This means you do not have to provide collateral in order to get a credit card.

If you have no credit history or have had credit problems in the past, you may only be able to obtain a secured credit card. To obtain a secured card, you generally need to pledge a savings account as collateral. This means the financial institution holds the savings account as security for repayment.

For example, if you want a credit card with a \$500.00 limit, the financial institution might require you to keep \$500.00 in a savings account. You will not be able to withdraw money from that account. The financial institution can use that \$500.00 if you are unable to pay your credit card bill. Once you demonstrate to the financial institution that you make your payments on time, the financial institution might release the collateral.

Charge Cards

A charge card is offered by retail stores and is similar to a credit card. The balance on a charge card account is payable in full when the statement is received and cannot be rolled over from one billing cycle to the next. Because you cannot carry a balance, a

charge card does not have a periodic or annual percentage rate, so there is no rate for a charge card issuer to disclose.

Debit Cards

Debit cards are linked directly to your checking account. Keep in mind that:

- When you use debit cards to make a purchase or to withdraw money at an Automated Teller Machine (ATM), the money is immediately taken out of your checking account.
- You need to be sure you have money in your checking account before you use a debit card.

Stored Value Cards

Have you ever used a telephone card with prepaid minutes or a gift card from a department store? These are examples of stored value cards.

Stored value cards are sometimes called prepaid cards. They are loaded with a certain amount of money. The value of the card goes down every time you use it to buy something or to take out money at an ATM.

There is one important difference between credit cards and stored value cards. You can't build a credit history with a stored value card because no money is being borrowed and therefore there are no payment records to be recorded at the credit bureau.